

Consolidating Loans

Consolidating College Loans Before July 1st Could Save Students and Families Thousands of Dollars When Paying for College

On July 1, 2006 the interest rates on outstanding federal student loans are expected to rise to just over 7 percent-the highest rate in six years-and the rate on outstanding federal parent loans are expected to rise to about 7.8 percent. Student borrowers who consolidate before July 1st may be eligible to lock in a rate as low as 4.75 percent over the life of their loan(s)-which would save the typical undergraduate borrower almost \$3,500 over the life of his or her loan. But students and parents must act quickly to ensure that they can lock in these lower rates.

What is loan consolidation?

Students and parents who have taken out at least one loan through the federal government's Federal Family Education Loan (FFEL), Direct Loan or Perkins Loan programs may be eligible to lock in a low fixed rate over the life of their loan(s), but only if they consolidate by June 30, 2006.

Why should student and parent borrowers consider consolidating before July 1, 2006?

On July 1st the interest rates on outstanding federal student loans are expected to rise to just over 7 percent-the highest rate in six years-and the rate on outstanding federal parent loans are expected to rise to about 7.8 percent. Student borrowers who consolidate before July 1st may be eligible to lock in a rate as low as 4.75 percent over the life of their loan(s)-which would save the typical undergraduate borrower almost \$3,500 over the life of his or her loan. Parent borrowers who consolidate before July 1st may be eligible to lock in a rate as low as 6.1 percent over the life of their loan(s).

Consolidation may also deliver other benefits to borrowers such as eliminating the need for dealing with multiple lenders

or allowing borrowers to enroll in payment plans based on a percentage of their income. Borrowers who make a set number of on-time repayments or who make payments through automatic banking can obtain additional interest rate reductions.

How can I consolidate my loans?

If you have a Direct Loan through the Department of Education you can call 1-800-557-7392 or apply on-line at <http://www.loanconsolidation.ed.gov/>. If you have a loan through the FFEL program (a bank-based loan) you can contact one of the companies that own or service your student or parent loan(s).

If you have loans with more than one lender you can chose to consolidate through the Department of Education or with any lender that provides federal consolidation loans.

When is the deadline to consolidate and lock in a low fixed rate?

The deadline is June 30, but you should apply before then to beat the rush of applications.

Can student borrowers consolidate their loans while they are still in-school?

Before July 1st, you may be eligible to consolidate your loans while you're still in school. Consolidating while you're still in school will let you lock in the grace-period rate of 4.75 percent (borrowers who consolidate their loans, before July 1st, and while in repayment will lock in an interest rate of 5.375 percent). However before taking this option, borrowers should make sure that their lender will let them defer their payments until graduation.

Can borrowers reconsolidate their loans?

If you have already consolidated your loans, you cannot consolidate again.

Can borrowers consolidate Perkins loans?

Students who've borrowed Perkins loans, which carry a fixed interest rate of 5 percent and offer loan forgiveness to graduates working in certain fields such as teaching or social work, should carefully consider whether or not consolidation is right for them. If Perkins loan borrowers consolidate their loans, they lose their loan forgiveness benefits.

For more information borrowers should contact the Department of Education at 1-800-557-7392 or <http://www.loanconsolidation.ed.gov/> .

How are Democrats working to make college more affordable?

Earlier this year, the Republican-led Congress cut \$12 billion out of the federal student aid programs in order to help finance tax breaks for the wealthiest Americans. As a result of this Republican Raid on Student Aid, college is even further out of reach for millions of American students and their families.

In contrast, Democrats continue to work to make college more affordable. House Democrats introduced legislation, the Reverse the Raid on Student Aid Act (H.R. 5150), that would cut interest rates in half from 6.8 percent to 3.4 percent, for students with subsidized loans - which go to students with the most financial need - and from 8.5 percent to 4.25 percent for parent borrowers, starting in July 2006.*

Under H.R. 5150, the typical undergraduate student borrower with \$17,500 in student loan debt would save \$5,600 over the life of his or her federal college loans.

* Beginning on July 1, 2006 all NEW student and parent loans will be set at fixed rates of 6.8 percent for undergraduate students and 8.5 percent for parent borrowers.

For more information please visit: http://edworkforce.house.gov/democrats/education_raidonstudentaid.shtml